GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4625
ANSWERED ON:25.04.2008
IMPACT OF MAJOR ECONOMIES ON INDIA
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Will the Minister of FINANCE be pleased to state:

(a) whether the India`s economy is affected by the economic progress of other countries of the world;

(b) if so, the reaction of the Government thereto;

(c) whether the stock-market in India has also been constantly affected by the stock-markets in United States, Hong Kong, Shanghai and Tokyo etc;and

(d) if so, the reaction of the Government thereto and the steps taken to obviate such effects?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI P.K.BANSAU

(a) and (b): In an increasingly globalised world economic environment, the economic developments in other countries of the world do have some bearing on emerging market economies including India through trade and investment linkages. The adverse impact of the recent turmoil in the financial markets of the advanced economies on emerging market economies including India, however, has been muted. The resilience of the Indian economy has been due to strong domestic demand and lower dependence on net foreign demand, and relatively lower direct exposure of the Indian financial markets to the advanced economies` markets. Monitoring the emerging situation and taking appropriate steps to mitigate the adverse effects arising from developments in other countries is a continuous process.

(c) and (d): The stock indices move up or down depending on the changing perceptions of investors - domestic and overseas, retail and institutional - about the economy, the various sectors and the companies. The recent movement in different stock markets is attributed, among other factors, to U.S. sub-prime mortgage crisis, decrease in interest rates by the US Fed, Yen carry trade, rise in oil prices etc. The authorities do not try to manage or control movement of stock indices. They have put in place systems and practices to promote a safe, transparent and efficient market and to protect market integrity. The systems instituted include advanced risk management mechanisms like on-line monitoring and surveillance, various limits on positions, margin requirements and circuit filters.